

STATE OF MICHIGAN
FAMILY INDEPENDENCE AGENCY

MEMORANDUM

To: James Beougher, Director
Child and Family Services
July 1, 1999

From: Rita Barker, Director
Office of Internal Audit

Subject: Audit of Inventory Controls, Residents' Accounts, and Petty Cash Account at Nokomis Challenge Center
Audit #99-228

The Office of Internal Audit performed an audit of food purchasing procedures, food inventory controls, policies and procedures regarding commodity inventory and purchases, residents' accounts, and the petty cash account at the Nokomis Challenge Center on May 14, 1999. The objective of our audit was to determine if the controls in effect at the Nokomis Challenge Center are adequate to provide reasonable assurance that the risk of commodities being stolen or misused is minimized, and that controls over the boys' account and petty cash account are adequate.

Based on our review, we concluded the Nokomis Challenge Center internal controls were generally adequate to minimize the risk of theft or misuse. However, we noted control weaknesses in the lack of inventory records for medical supplies, hygiene products, and in the canteen operation, and the absence of identification on Nokomis equipment and gear that are used by the residents.

Food Items: We concluded that controls over food items were adequate. No formal inventory records were kept, however, Nokomis did not keep a large inventory of food items on hand. Food was stored in a walk-in storage pantry, walk-in food freezers, and refrigerators. Menus were planned five weeks at a time, and food was ordered weekly. Once a week a walk through inventory was taken by the cooks or supervisor to determine what items needed to be re-ordered. Controls were in place to ensure that the correct amount of food was ordered and delivered, and to ensure that the billing for the food was accurate. Nokomis had adequate separation of duties in the ordering, receiving, and use of food items.

Clothing: We concluded that controls over the clothing items at Nokomis could be improved by marking items such as hiking boots, cross country skis, camping gear, sleeping bags, etc. with an indelible marking pen to identify them as property of the Nokomis Challenge Center. Access to the inventory of these items was limited, and controls were adequate to reduce the risk of theft or misuse of the clothing items. However, marking them as the property of Nokomis would make these items easily identifiable and reduce their value if they were stolen.

WE RECOMMEND that the Nokomis Challenge Center mark clothing items, gear and equipment used by the residents with an indelible marking pen to identify them as property of the Nokomis Challenge Center.

Medical Supplies and Hygiene Products: The Nokomis Challenge Center was not currently maintaining inventory records of routine medical supplies and hygiene products. The person in charge of these items left and no one had been appointed as a replacement. As a result, Nokomis had supplies on hand that had not been inventoried or properly stored.

The prescription medication was kept in a locked cabinet in a separate area where a staff person maintained the switchboard that controls ingress and egress security to all of the wings. A medical log was maintained for all prescription drugs. We concluded that controls over the prescription drugs were generally adequate.

WE RECOMMEND that the Nokomis Challenge Center maintain inventory records for routine medical supplies and hygiene products.

Canteen Operation: Nokomis Challenge Center operates a canteen for its residents to “purchase” candy, chips, pop, etc. as a reward for earning points for various accomplishments. There was no money involved in this operation. The canteen items were stored in a separate locked closet and access to the items was limited. There were no inventory records for the canteen items. Inventory records would help to detect loss of any of the items.

WE RECOMMEND that the Nokomis Challenge Center maintain inventory records for the items in the canteen.

Residents’ Account: The Nokomis Challenge Center maintains a Residents’ Account for the residents’ money, which is kept in a separate bank account. There has been very little activity in this account. The Center does not encourage residents to keep any funds for personal use. The Center also maintains a Residents’ Benefit Fund, which is used for activities that benefit the entire Center. The funds are also kept in a separate

bank account. Pop machine proceeds would be an example of revenue for the Residents' Benefit Fund. We concluded that controls over these funds were generally adequate.

Petty Cash: The Nokomis Challenge Center maintains a \$500 petty cash fund. The Center reimburses the fund by means of state warrants issued at the center. The director approves all purchases from this fund. In addition all cash boxes and valuables (if applicable) are kept in a locked safe in the business office. The Business Manager, Director and a Program Manager have access to this safe. We concluded that controls over the petty cash fund were generally adequate.

Please contact me if you have any questions concerning this audit.

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